



**STATE OF CONNECTICUT**  
*INSURANCE DEPARTMENT*

**Testimony of the  
Connecticut Insurance Department  
Before  
The Insurance and Real Estate Committee  
March 5, 2015**

**Raised Bill No. 6864: An Act Concerning The Provisions Of The Standard Fire Policy Form.**

Chairmen Crisco and Megna, Ranking Members Kelly and Sampson, and Members of the Committee, the Insurance Department appreciates the opportunity to submit written testimony on Raised Bill No 6864.

The Insurance Department (the "Department") opposes HB 6864 as it revises well settled law concerning the Connecticut Standard Fire Policy that the Department has no reason to believe is causing complaints in the Connecticut property insurance marketplace. This proposed legislation will likely lead to market disruption if insurers are required to include standard fire provisions in all property insurance contracts. The Department is unaware of any marketplace problems or concerns that this legislation is attempting to address.

The proposal if enacted, would require a determination to be made of "more favorable" coverage provisions than currently exist in a standard fire policy. The Department is concerned that the term "more favorable" is too vague and may cause uncertainty and disruption concerning when applied to the Standard Fire Insurance Policy found in all property insurance policies. As the Committee knows, the Standard Fire policy is very basic and represents a minimum fire insurance policy having its genesis in the early 20<sup>th</sup> century. It has its place for residual market offerings and very basic property coverage. However, it is by far the least used policy form in our State's modern day property insurance marketplace.

More specifically, the Department is concerned that:

- This proposed legislation would create a "basic" stripped down homeowner policy and serve to allow companies to significantly reduce other coverages such as personal liability coverage not found in the standard fire provisions. In addition, insurers could incorporate standard fire exclusions, such as theft coverage, leaving the consumer unprotected.
- The proposal would allow companies to use "actual cash value" as the loss settlement standard rather than a typical replacement cost feature. The Department does not currently allow actual cash value loss settlement in Homeowners' insurance policies and this change, we believe, could have the unintended consequence of consumers having to go out-of-pocket in the event of a loss if actual cash value is the minimum standard.
- With regard to policy cancellations, insurers are permitted to cancel a policy for two reasons if the policy has been in effect for over 60 days, for material misrepresentation and/or a

substantial change in the risk insured against. The Department wishes to point out that the Standard Fire Policy allows a cancellation for any reason whatsoever on 30 days notice. For this reason, the Department has serious concerns that insurers would have greater flexibility to cancel policies without providing specific reasons.

These are only a few of the highlighted concerns identified by the Department. Moving forward, an in-depth analysis of each and every provision of the Standard Fire Policy would need to be undertaken in relation to the homeowners' provisions in current use to judge which are or are not "more favorable". Lastly, should this legislation move forward it will create significant additional workload for the Department as the change would require insurers to re-file all property forms, rate and rules as well as underwriting guidelines. The Department anticipates it could expect to see 1,000 or more additional filings submitted for the personal lines property business alone—commercial lines changes could be as substantial. More professional and administrative staff and resources would likely be needed should this legislation become law.

The Department believes that the recent legislative changes incorporating some—but not all—provisions of the Standard Fire policy have proved effective as evidenced by the competitive property insurance market in Connecticut. The Department supports and thanks the Committee for those earlier changes to the insurance statutes. In contrast, HB 6864 may swing the pendulum too far and as a result have a chilling effect on the market.

The Department also notes that the new provision added in subsection (b) of Section 1 dealing with payment of the umpire's fee does not appear to be commercially feasible. The umpire hired to settle a disagreement with each party's appraiser should be assured of payment after services are rendered and it seems perfectly reasonable to have his fee paid from the settlement amount. Further, the Department recommends that all references to non-admitted insurers or surplus lines insurers be deleted since the Department is not authorized to regulate the policy forms and rates used by these insurers.

The Connecticut Insurance Department appreciates this opportunity to comment on and respectfully requests the Committee not give Raised Bill 6864 a Joint Favorable Report.

**About the Connecticut Insurance Department:** The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.